

NATURAL GAS UTILITY DISTRICT
OF HAWKINS COUNTY

Financial Statements
With Supplementary Information

March 31, 2020 and 2019

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Financial Statements
With Supplementary Information
March 31, 2020 and 2019

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INTRODUCTORY SECTION (UNAUDITED)

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Roster of Officials and Commissioners
March 31, 2020 and 2019

Officials

Mr. Patrick Lund

General Manager

Commissioners

Mr. Reed Matney

Chairman

Mr. Tommy Young

Vice-Chairman

Mr. Eugene Christian

Secretary

FINANCIAL SECTION

Independent Auditors' Report

Board of Commissioners
Natural Gas Utility District of Hawkins County
Rogersville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Natural Gas Utility District of Hawkins County (the "District") as of and for the years ended March 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of March 31, 2020 and 2019, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

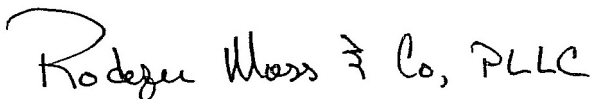
Our audits were conducted for the purpose of forming an opinion on the financial statements of the District. The introductory section and the supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Greeneville, Tennessee
July 8, 2020

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Discussion and Analysis
March 31, 2020 and 2019

Our discussion and analysis of the financial performance of Natural Gas Utility District of Hawkins County (the "District") provides an overview of the District's financial activities for the fiscal years ended March 31, 2020 and 2019. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- The District's net position decreased \$231,204, or more than 1 percent, which compared to an increase of \$714,782, or more than 3 percent for the prior fiscal year.
- During the year, the District had operating revenues that were \$1,651,989 less than last year and cost of sales that were \$1,001,767 less than last year.
- The District's non-operating revenues increased by \$62,372.
- It has been increasingly difficult in recent years to project operating costs due to the extreme volatility of natural gas and propane prices. Both revenue and cost have been based on historical averages adjusted for estimated gas costs. Effective October 1, 2004, the District instituted a Purchase Gas Adjustment (PGA) rate. The retail rates are adjusted each month based on the District's cost of gas for that month.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The District operates as a utility enterprise and its annual report consists of a series of financial statements presented on the full accrual basis of accounting. The Statements of Net Position, Statements of Revenue, Expenses, and Changes in Net Position and Statements of Cash Flows (on pages 7-9) provide information about the District as a whole and present a longer-term view of the District's finances.

CONDENSED FINANCIAL INFORMATION

The following condensed financial information provides an overview of the District's financial activities for the years ended March 31, 2020 and 2019.

NET POSITION

	<u>2020</u>	<u>2019</u>
Capital assets, net	\$11,376,565	\$10,761,531
Other assets, net	<u>10,674,561</u>	<u>11,767,605</u>
Total assets	22,051,126	22,529,136
Long-term liabilities	103,747	96,025
Other liabilities	<u>549,158</u>	<u>803,686</u>
Total liabilities	652,905	899,711
Net invested in capital assets	11,376,565	10,761,531
Unrestricted	<u>10,021,656</u>	<u>10,867,894</u>
Total net position	<u>\$21,398,221</u>	<u>\$21,629,425</u>

Capital and other assets - The change in capital assets is a net increase of \$615,034, due to the extension of lines and replacement of obsolete equipment. Depreciation also increased. Other assets decreased \$1,093,044, primarily due to decreases in certificates of deposit and accounts receivable.

Long-term and other liabilities - Long-term liabilities increased due to new copier leases. Other liabilities decreased due to a decrease in accounts payable.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Discussion and Analysis (Continued)

CONDENSED FINANCIAL INFORMATION (Continued)

CHANGES IN NET POSITION

	<u>2020</u>	<u>2019</u>
Total operating revenues	\$ 9,543,440	\$11,195,429
Total non-operating revenues	<u>161,101</u>	<u>98,729</u>
Total revenues	\$ 9,704,541	\$11,294,158
 Total operating expense	 5,002,011	 6,003,778
Total other operating expense	<u>4,933,734</u>	<u>4,575,598</u>
 Total expenses	 <u>9,935,745</u>	 <u>10,579,376</u>
 Change in net position	 (231,204)	 714,782
 Net position, beginning of year	 <u>21,629,425</u>	 <u>20,914,643</u>
Net position, end of year	<u>\$21,398,221</u>	<u>\$21,629,425</u>

Revenues - The District's operating revenues consist primarily of natural gas sales. The main source of the District's other operating revenues are connection charges and forfeited discounts.

Expenses - The District's total expenses decreased by \$643,631 due to a decrease in cost of goods sold and an increase in maintenance expenses.

CAPITAL ASSET

Capital Assets - At March 31, 2020 and 2019, the District had \$26.8 and \$25.5 million, respectively, invested in distribution plant, intangible plant, propane plant, land, buildings, equipment, furniture and fixtures and automobiles (see table below), respectively. The 2020 amount represents an increase of \$1,323,411 over the 2019 amount.

	<u>2020</u>	<u>2019</u>
Distribution plant	\$19,820,307	\$18,819,656
Intangible plant	16,958	16,958
Propane plant	2,749,705	2,668,713
Land and right-of-ways	186,206	186,206
Buildings	1,585,442	1,433,053
Equipment	522,264	511,231
Furniture and fixtures	572,240	560,226
Automobiles and trucks	<u>1,329,289</u>	<u>1,262,957</u>
Totals	<u>\$26,782,411</u>	<u>\$25,459,000</u>

The 2019-2020 capital improvements include progress on Automated Meter Reading for meters and new trucks and equipment. The District will continue to extend mains as needed for future development.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Discussion and Analysis (Continued)

RESULTS AND OUTLOOK

The District's gas sales started out below last year's levels, but were still above the 12-year average. However, the winter of January 2020 was much warmer than normal which resulted in a 15% drop in natural gas sales compared to the same time the prior year. In fact, January's gas sales were the lowest in the past 13 years. The average temperatures for the months of February and March weren't any better. In addition, the Covid-19 pandemic caused numerous commercial and manufacturing businesses to temporarily close causing an even greater loss of gas sales. The result was that FY 19-20 recorded the fourth lowest natural gas sales in the past 13 years. The sales of propane did not fare much better.

The slow re-opening of the country from the Covid-19 pandemic is still affecting the District's gas sales and will probably continue to do so through the summer. Five (5) of the District's top 11 industrial customers scaled back gas consumption by more than 75% or shut down almost completely. Most are automotive related so the District foresees those customers coming back on-line as the major automotive manufacturers re-open.

The District continued to re-invest in its distribution system both by new main line extensions and line replacements for the fourth year in a row. This year there was a continued emphasis on old-steel line replacement. Some of the oldest lines, installed about 50 years ago, are being replaced with new polyethylene pipe. In addition, the District continued to upgrade the meter stations and pressure regulator stations. The replacement of gas meters or conversion of newer meters to automated meter reading (AMR) continued. Currently, the District has over 70% of meters with AMR units. The Covid-19 pandemic halted the projects for the time being. The pipeline replacement project has been suspended and the contractor let go in an effort to cut costs. The AMR replacement stopped due to observing social distancing and keeping employees out of customer's homes as much as possible. All possible cost savings are being looked into as well as either a temporary surcharge or rate increase until the District's manufacturing base comes back in full.

Natural Gas prices continue to remain low with the highest price at less than \$3 per dekatherm and now below \$2 per dekatherm. Propane prices also decreased mainly due to Covid-19. As long as prices continue to remain reasonable, the District believes that the growth in residential consumers of natural gas and propane will continue. The District continues to see solid customer growth in both the natural gas side and the propane side.

The Board of Commissioners approved major changes to the Employee Retirement Plan. The plan was changed from a "defined target benefit plan" to a "defined contribution plan". The plan change will provide a fair plan to younger employees and a better retirement for existing employees. These changes will improve recruitment and retention of employees in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our purveyors, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District at 202 Park Boulevard, Rogersville, Tennessee 37857.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Statements of Net Position

March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash	\$ 2,121,131	\$ 2,368,708
Certificates of deposit	5,967,694	6,394,302
Accounts receivable, net	545,781	918,870
Inventories	1,706,683	1,729,115
Unbilled revenues	153,053	188,088
Prepaid expenses	42,332	44,904
Interest receivable	<u>45,047</u>	<u>29,948</u>
Total current assets	<u>10,581,721</u>	<u>11,673,935</u>
Designated Funds		
Gas meter deposits - cash	<u>92,840</u>	<u>93,670</u>
Total designated funds	<u>92,840</u>	<u>93,670</u>
Utility Plant		
Utility plant	26,782,411	25,459,000
Less accumulated depreciation	<u>(15,405,846)</u>	<u>(14,697,469)</u>
Total utility plant, net	<u>11,376,565</u>	<u>10,761,531</u>
Total assets	<u><u>\$ 22,051,126</u></u>	<u><u>\$ 22,529,136</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 310,966	\$ 572,125
Capital lease payable, due within one year	3,198	2,862
Other payables and accrued liabilities	<u>234,994</u>	<u>228,699</u>
Total current liabilities	<u>549,158</u>	<u>803,686</u>
Non-Current Liabilities		
Capital lease payable, less amount due within one year	10,907	2,355
Payable from designated funds - gas meter deposits	<u>92,840</u>	<u>93,670</u>
Total non-current liabilities	<u>103,747</u>	<u>96,025</u>
Total liabilities	<u>652,905</u>	<u>899,711</u>
Net investment in capital assets	11,376,565	10,761,531
Unrestricted	<u>10,021,656</u>	<u>10,867,894</u>
Total net position	<u><u>\$ 21,398,221</u></u>	<u><u>\$ 21,629,425</u></u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Sales	\$ 9,381,080	\$ 11,076,972
Cost of sales	<u>5,002,011</u>	<u>6,003,778</u>
	4,379,069	5,073,194
Other operating revenues	<u>162,360</u>	<u>118,457</u>
Total operating revenues	<u>4,541,429</u>	<u>5,191,651</u>
OPERATING EXPENSES		
General and administrative	2,991,659	2,685,643
Transmission and distribution	903,160	868,904
Depreciation	797,781	757,170
Customer accounting and collection	165,077	169,738
Sales promotion	<u>76,057</u>	<u>94,143</u>
Total operating expenses	<u>4,933,734</u>	<u>4,575,598</u>
Operating (loss) income	<u>(392,305)</u>	<u>616,053</u>
OTHER INCOME		
Interest income	127,840	77,176
Gain on disposal of utility plant	<u>33,261</u>	<u>21,553</u>
Total other income	<u>161,101</u>	<u>98,729</u>
Change in net position	(231,204)	714,782
Net position at the beginning of the year	<u>21,629,425</u>	<u>20,914,643</u>
Net position at the end of the year	<u>\$ 21,398,221</u>	<u>\$ 21,629,425</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Statements of Cash Flows

Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 9,773,275	\$ 11,210,736
Cash paid to suppliers	(5,790,215)	(6,916,581)
Cash paid to employees including benefits	(3,568,721)	(3,310,983)
Other operating receipts	<u>162,360</u>	<u>118,457</u>
Net cash flows from operating activities	<u>576,699</u>	<u>1,101,629</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from disposal of equipment	70,126	4,553
Acquisition and construction of utility plant	<u>(1,452,101)</u>	<u>(959,910)</u>
Net cash flows from capital and related financing activities	<u>(1,381,975)</u>	<u>(955,357)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	6,496,753	6,379,290
Purchases of investments	(5,956,257)	(6,448,039)
Interest collected	<u>16,373</u>	<u>77,176</u>
Net cash flows from investing activities	<u>556,869</u>	<u>8,427</u>
Net change in cash	(248,407)	154,699
Cash at the beginning of the year	<u>2,462,378</u>	<u>2,307,679</u>
Cash at the end of the year	<u><u>\$ 2,213,971</u></u>	<u><u>\$ 2,462,378</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ (392,305)	\$ 616,053
Adjustments to reconcile operating income to cash flows from operating activities		
Depreciation	797,781	757,170
Decrease (increase) in:		
Accounts receivable	373,089	112,783
Inventories	22,432	(581,081)
Unbilled revenues	35,035	21,885
Prepaid expenses and interest receivable	(12,527)	(4,522)
Increase (decrease) in:		
Accounts payable	(261,159)	170,834
Accrued liabilities	6,295	8,407
Capital lease payable	8,888	(3,729)
Gas meter deposits	<u>(830)</u>	<u>3,829</u>
Net cash flows from operating activities	<u><u>\$ 576,699</u></u>	<u><u>\$ 1,101,629</u></u>

See accompanying notes to financial statements.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements
March 31, 2020 and 2019

NOTE 1 - NATURE OF ORGANIZATION

Natural Gas Utility District of Hawkins County (the “District”) was created under the Utility District Act of 1937 to provide natural gas and propane gas services to residents and businesses of Hawkins County, Tennessee.

The District receives the majority of its natural gas supply through East Tennessee Natural Gas, a division of Enbridge and Tennessee Gas Pipeline interstate pipelines. The District has firm transportation and storage contracts with these pipelines. The District purchases its natural gas supply from two marketing companies, CenterPoint Energy and Tennessee Energy Acquisition Corporation, (“TEAC”). The TEAC natural gas supply is a firm long-term supply contract.

The District is operated under the control of a three-member Board of Commissioners (“Board”). The District’s operations alone constitute the reporting entity since the Board is not financially accountable for any other entities and the District has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the District. Operating revenues are based on rates approved by the Board of Commissioners. No other board or commission has jurisdiction over the District in the management and control of its operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The District is an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has implemented Governmental Accounting Standards Board Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.”*

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources management focus,” and the “accrual basis of accounting”. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents - For purposes of reporting cash flows, cash includes highly liquid investments (including restricted assets) purchased with a maturity of three months or less.

Accounts Receivable - The District extends unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by actively pursuing past due accounts. Management has established an allowance for doubtful accounts of approximately \$138,000 in 2020 and \$186,000 in 2019. Based on subsequent collections, historical performance, and experience with the District’s customers, management believes that the allowance is adequate.

Inventories - Materials, which include appliances, supplies and gas in storage, are valued at average cost.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Utility Plant - is stated at the historical cost of construction. Such costs include direct construction costs and payroll related costs. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to thirty-three years. The cost of normal repairs of property and the replacements and renewal of items considered being less than units of property are charged to maintenance expense. Units of property replaced or retired are credited to the utility plant accounts and charged to accumulated depreciation.

Revenues and Expenses - The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering gas in connection with ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Date of Management Review - Management has evaluated events and transactions occurring subsequent to the statement of net position for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 3 - CASH AND INVESTMENTS

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance. The collateral must be held by the District or its agent in the District's name, or by the Federal Reserve in the District's name.

Statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, state pooled investment fund, and money market mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Following are the components of the District's cash on hand and bank deposits at March 31, 2020 and 2019:

<u>March 31, 2020</u>	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Cash on hand	\$ 1,425	\$ -	\$ 1,425
Bank deposits -			
Non-interest bearing demand	258,428	-	258,428
Interest bearing demand	<u>1,861,278</u>	<u>92,840</u>	<u>1,954,118</u>
Total cash	2,121,131	92,840	2,213,971
Investments in certificates of deposit	<u>5,967,694</u>	-	<u>5,967,694</u>
Total	<u>\$ 8,088,825</u>	<u>\$ 92,840</u>	<u>\$ 8,181,665</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued)

<u>March 31, 2019</u>	<u>Undesignated</u>	<u>Designated</u>	<u>Total</u>
Cash on hand	\$ 1,000	\$ -	\$ 1,000
Bank deposits -			
Non-interest bearing demand	283,203	-	283,203
Interest bearing demand	<u>2,084,505</u>	<u>93,670</u>	<u>2,178,175</u>
Total cash	2,368,708	93,670	2,462,378
Investments in certificates of deposit	<u>6,394,302</u>	<u>-</u>	<u>6,394,302</u>
Total	<u>\$ 8,763,010</u>	<u>\$ 93,670</u>	<u>\$ 8,856,680</u>

The carrying amounts of the District's deposits were \$8,181,664 and \$8,856,680 and the bank balances were \$8,249,897 and \$8,978,589 as of March 31, 2020 and 2019. Of the bank balances, \$1,048,312 for 2020 and \$1,166,170 for 2019 were covered by federal depository insurance and \$7,201,585 and \$7,812,419 were covered through the banks' participation in the Tennessee Bank Collateral Pool.

NOTE 4 - INVENTORIES

Inventory is valued at average cost. Inventories consisted of:

	<u>2020</u>	<u>2019</u>
Natural gas storage	\$ 561,460	\$ 654,629
Appliances, parts and supplies	892,847	885,195
Propane	<u>252,376</u>	<u>189,291</u>
	<u>\$ 1,706,683</u>	<u>\$ 1,729,115</u>

NOTE 5 - MAJOR SUPPLIERS

For the years ended March 31, 2020 and 2019 there were two suppliers that comprised greater than ten percent of the District's gas purchases. These purchases totaled approximately \$3 million for 2020 and \$3.8 million for 2019 or 100% of gas purchases, respectively.

NOTE 6 - MAJOR CUSTOMER

For the years ended March 31, 2020 and 2019, one customer comprised greater than ten percent of the District's gas sales. These sales totaled approximately \$678,000 for 2020 and \$900,000 for 2019.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains commercial insurance to cover general liability claims, errors or omissions liability, auto liability, property damage, and workers' compensation. The District is covered by the Tennessee Governmental Tort Liability Act, which generally limits the District's tort liability to \$350,000 per claim. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements (Continued)

NOTE 8 - UTILITY PLANT

Utility plant activity for the year ended March 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 186,206	\$ -	\$ -	\$ 186,206
Total capital assets not being depreciated	<u>186,206</u>	<u>-</u>	<u>-</u>	<u>186,206</u>
Capital assets being depreciated				
Buildings and permanent improvements	1,433,053	152,389	-	1,585,442
Equipment and gas distribution system	<u>23,839,742</u>	<u>1,299,712</u>	<u>128,691</u>	<u>25,010,763</u>
Total capital assets being depreciated	25,272,795	1,452,101	128,691	26,596,205
Less accumulated depreciation	<u>14,697,470</u>	<u>797,781</u>	<u>(89,405)</u>	<u>15,405,846</u>
Total capital assets being depreciated, net	<u>10,575,325</u>	<u>654,320</u>	<u>39,286</u>	<u>11,190,359</u>
Total capital assets, net	<u>\$10,761,531</u>	<u>\$ 654,320</u>	<u>\$ 39,286</u>	<u>\$11,376,565</u>

Utility plant activity for the year ended March 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 181,191	\$ 5,015	\$ -	\$ 186,206
Total capital assets not being depreciated	<u>181,191</u>	<u>5,015</u>	<u>-</u>	<u>186,206</u>
Capital assets being depreciated				
Buildings and permanent improvements	1,433,053	-	-	1,433,053
Equipment and gas distribution system	<u>23,864,843</u>	<u>971,895</u>	<u>996,996</u>	<u>23,839,742</u>
Total capital assets being depreciated	25,297,896	971,895	996,996	25,272,795
Less accumulated depreciation	<u>14,937,296</u>	<u>757,170</u>	<u>(996,996)</u>	<u>14,697,470</u>
Total capital assets being depreciated, net	<u>10,360,600</u>	<u>214,725</u>	<u>-</u>	<u>10,575,325</u>
Total capital assets, net	<u>\$10,541,791</u>	<u>\$ 219,740</u>	<u>\$ -</u>	<u>\$10,761,531</u>

Depreciation charged to income was \$797,781 and \$757,170 for the years ended March 31, 2020 and 2019, respectively.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements (Continued)

NOTE 9 - DEFERRED COMPENSATION PLAN

Employees of the District are offered a deferred compensation plan through Natural Gas Utility District of Hawkins County (the "Plan") created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. The assets of the plan are held in a trust for the exclusive benefit of the participants and their beneficiaries. Presently, the District does not match any employee deferrals.

NOTE 10 - DEFINED CONTRIBUTION PLAN

Employees of the District are provided a contributory target benefit defined contribution retirement plan covering substantially all of its employees through Natural Gas Utility District of Hawkins County Employees' Pension Trust (the "Plan"). The Plan provisions and contribution requirements are established by and may be amended by the District's Board of Commissioners. Employees are eligible to participate in the plan after completion of six months of service and attainment of their 24th birthday. Employees participate in the plan on September 1 after the eligibility requirements are met. The plan allows employees to contribute up to 2% of their annual salary to the plan. The District's contributions to the plan are actuarially calculated based on age, salary, and date of employment, using a target benefit of 25% of the employee's annual average compensation. The District's contributions for each employee and earnings allocated to each employee's account are vested on a graded schedule of 20% increments for 2-6 years of service. The employee is vested 100% at all times for employee contributions. Forfeitures of the Plan may be used to satisfy any contribution paid by the District or to pay any administrative expenses of the Plan. Forfeitures used during the year ended March 31, 2020 and 2019 were \$0 and \$2,886. The balances of forfeitures available at March 31, 2020 and 2019 were \$0. The District's contributions to the plan totaled \$101,149 for 2020 and \$109,895 for 2019. Employees' contributions to the plan totaled \$31,592 for 2020 and \$32,162 for 2019.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to concentrations of credit risk consist primarily of cash, certificates of deposit and customer accounts receivable. The District's cash deposits and investments in certificates of deposit are in financial institutions and are federally insured or collateralized. Credit evaluation and account monitoring procedures are utilized to minimize the risk of loss. Management does not believe significant credit risk existed at March 31, 2020.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District has firm gas supply and firm gas transportation contracts some of which do not expire until September 2049. These contracts typically contain minimum demand or storage obligations on the part of the District.

The District is involved in litigation and claims arising principally in the normal course of business. In the opinion of management the outcomes of these claims will not have a material adverse effect on the accompanying financial statements and accordingly, no provisions have been recorded.

NOTE 13 - SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Notes to Financial Statements (Continued)

NOTE 13 - SUBSEQUENT EVENTS (Continued)

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity¹ for fiscal year 2020.

SUPPLEMENTARY INFORMATION

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Operating Revenues
Years Ended March 31, 2020 and 2019

	<u>Sales</u>	<u>Cost of Sales</u>	<u>Gross Profit</u>	<u>Gross Profit Percentage</u>
Year Ended March 31, 2020				
Natural gas	\$ 6,700,351	\$ 2,977,329	\$ 3,723,022	55.6%
Propane	1,334,584	542,389	792,195	59.4%
Appliances and service	<u>1,346,145</u>	<u>1,482,293</u>	<u>(136,148)</u>	<u>-10.1%</u>
	<u>\$ 9,381,080</u>	<u>\$ 5,002,011</u>	<u>\$ 4,379,069</u>	46.7%
Year Ended March 31, 2019				
Natural gas	\$ 8,222,251	\$ 3,786,895	\$ 4,435,356	53.9%
Propane	1,502,158	752,287	749,871	49.9%
Appliances and service	<u>1,352,563</u>	<u>1,464,596</u>	<u>(112,033)</u>	<u>-8.3%</u>
	<u>\$ 11,076,972</u>	<u>\$ 6,003,778</u>	<u>\$ 5,073,194</u>	45.8%

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedules of Other Operating Revenues
Years Ended March 31, 2020 and 2019

	2020		2019	
	Amount	Percent of Sales	Amount	Percent of Sales
Connection charges	\$ 34,140	0.4%	\$ 43,920	0.4%
Forfeited discounts	67,481	0.7%	66,228	0.6%
Miscellaneous revenues	57,089	0.6%	2,040	0.0%
Discounts taken	<u>3,650</u>	<u>0.0%</u>	<u>6,269</u>	<u>0.1%</u>
	<u>\$ 162,360</u>	1.7%	<u>\$ 118,457</u>	1.1%

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY

Schedules of Other Operating Expenses

Years Ended March 31, 2020 and 2019

	2020		2019	
	Amount	Percent of Sales	Amount	Percent of Sales
Transmission and distribution expense				
Salaries	\$ 441,610	4.7%	\$ 443,451	4.0%
Repair and Maintenance	419,744	4.5%	378,630	3.4%
Engineering	41,806	0.4%	46,823	0.4%
	<u>903,160</u>	<u>9.6%</u>	<u>868,904</u>	<u>7.8%</u>
Customer accounting and collection expense				
Salaries	107,625	1.1%	89,557	0.8%
Uncollectible accounts	(3,262)	0.0%	17,358	0.2%
Supplies and expenses	60,714	0.6%	62,823	0.6%
	<u>165,077</u>	<u>1.8%</u>	<u>169,738</u>	<u>1.5%</u>
Sales promotions	<u>76,057</u>	<u>0.8%</u>	<u>94,143</u>	<u>0.8%</u>
General and administrative expense				
Employee benefits	1,266,146	13.5%	1,146,300	10.3%
Salaries	1,169,592	12.5%	1,076,705	9.7%
Insurance	197,594	2.1%	208,158	1.9%
Office supplies and expense	124,929	1.3%	107,674	1.0%
Utilities and telephone	72,986	0.8%	69,453	0.6%
Repairs and maintenance	108,271	1.2%	65,488	0.6%
Other general and administrative expense	56,039	0.6%	49,311	0.4%
Professional fees	58,694	0.6%	53,493	0.5%
Commissioners expense	20,294	0.2%	20,317	0.2%
Transportation	5,768	0.1%	2,319	0.0%
Freight	303	0.0%	283	0.0%
Overhead capitalized to plant	(88,957)	-0.9%	(113,858)	-1.0%
	<u>2,991,659</u>	<u>31.9%</u>	<u>2,685,643</u>	<u>24.2%</u>
Depreciation	<u>797,781</u>	<u>8.5%</u>	<u>757,170</u>	<u>6.8%</u>
	<u>\$ 4,933,734</u>	<u>52.6%</u>	<u>\$ 4,575,598</u>	<u>41.3%</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Utility Plant in Service
March 31, 2020

	Cost April 1, 2019	Additions	Retirements	Cost March 31, 2020
Distribution plant				
Mains	\$ 12,690,096	\$ 644,000	\$ -	\$ 13,334,096
Service lines	3,845,909	107,999	-	3,953,908
Meters	2,283,651	248,652	-	2,532,303
	<u>18,819,656</u>	<u>1,000,651</u>	<u>-</u>	<u>19,820,307</u>
Intangible plant	<u>16,958</u>	<u>-</u>	<u>-</u>	<u>16,958</u>
Propane plant	<u>2,668,713</u>	<u>80,992</u>	<u>-</u>	<u>2,749,705</u>
General plant				
Land and right-of-ways	186,206	-	-	186,206
Buildings	1,433,053	152,389	-	1,585,442
Equipment	511,231	91,618	80,585	522,264
Furniture and fixtures	560,226	60,119	48,105	572,240
Automobiles and trucks	1,262,957	66,332	-	1,329,289
	<u>3,953,673</u>	<u>370,458</u>	<u>128,690</u>	<u>4,195,441</u>
	<u>\$ 25,459,000</u>	<u>\$ 1,452,101</u>	<u>\$ 128,690</u>	<u>\$ 26,782,411</u>

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Utility Rates
March 31, 2020

Residential
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$5.95
Standard gas charge	0.637 per therm
Summer reduced rate	.310 per therm
Supplemental service rate	1.610 per therm

Commercial
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$6.95
Standard gas charge	0.647 per therm
Summer reduced rate	.340 per therm
Supplemental service rate	1.610 per therm

Public Authority and Religious
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$5.95
Standard gas charge	0.600 per therm
Summer reduced rate	.340 per therm
Supplemental service rate	1.610 per therm

Small Industrial
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$60.00
Standard gas charge	0.620 per therm

Large Industrial
Base Tariff Rates Excluding Gas Cost

Customer service charge	\$100.00
Next 40,000 therms	0.590 per therm
For all over 40,000 therms each month	0.530 per therm

Interruptible
Base Tariff Rates Excluding Gas Cost

For the first 40,000 therms each month	.382 per therm
For all over 40,000 therms each month	.312 per therm

The average cost of gas for the current month will be added to the above base tariff rates for the current month billing.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Utility Rates (Continued)

A 10% penalty is added to all amounts not paid by the discount date. Summer reduced rates apply to gas used for space cooling from May through September. Supplemental service rates apply to gas used for supplemental and/or auxiliary fuel in automatically controlled heating equipment where gas is not the primary heat source from November through March.

The number of natural gas customers at March 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Residential	6,683	6,646
Commercial	484	480
Public authority and religious	398	390
Industrial and interruptible	<u>35</u>	<u>35</u>
	<u>7,600</u>	<u>7,551</u>

COMPLIANCE REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Commissioners
Natural Gas Utility District
of Hawkins County

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Natural Gas Utility District of Hawkins County (the "District") as of and for the year ended March 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated July 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the district's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodger Moss & Co, PLLC

Greeneville, Tennessee
July 8, 2020



NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Findings and Responses
Year Ended March 31, 2020

Findings - Financial Statement Audit

Significant Deficiencies - Internal Control Over Financial Reporting

2020-001 - Segregation of Duties (repeated from prior year)

Criteria

Ideally, duties should be segregated so that one person is performing only one of the following functions in relation to a specific aspect of the District:

- 1) Custody
- 2) Recording
- 3) Authorization

Condition

Due to the small size of the bookkeeping staff, segregation of duties is inadequate.

Effect of Condition

One person in control of all aspects of accounting leaves greater potential for error or fraud to occur.

Cause of Condition

The District only employs one individual in the accounting department.

Recommendation

Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

Management's Response

Management acknowledges that segregation of duties is not ideal; however, management continues to study the most efficient ways to eliminate or mitigate this weakness.

NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Schedule of Disposition of Prior Year Findings
Year Ended March 31, 2020

Prior Year Financial Statement Findings

<u>Prior Year Finding Number</u>	<u>Finding Title</u>	<u>Status/ Current Year Finding Number</u>
2019-001	Segregation of Duties (original finding #2016-001)	Repeated/2020-001



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NATURAL GAS UTILITY DISTRICT OF HAWKINS COUNTY
Management's Corrective Action Plan
March 31, 2020

2020-001 - Segregation of Duties (Repeated from prior year)

Recommendation

Internal control procedures should be in place to segregate the duties of custody, recording, and authorization of the accounting records to prevent error and fraud.

Action Taken

Currently the general ledger is maintained by the accountant with the Board reviewing financial statements at meetings. The accounting process does not lend itself to an appropriate segregation of duties and oversight of transactions. Due to the small size of the organization and cost efficiency, the current accounting process is the most beneficial. The Board will add levels of duties if the District increases in transactions and size.

Name of Contact Person: Patrick Lund
Anticipated Completion Date: Ongoing

Sincerely,

Patrick Lund
General Manager